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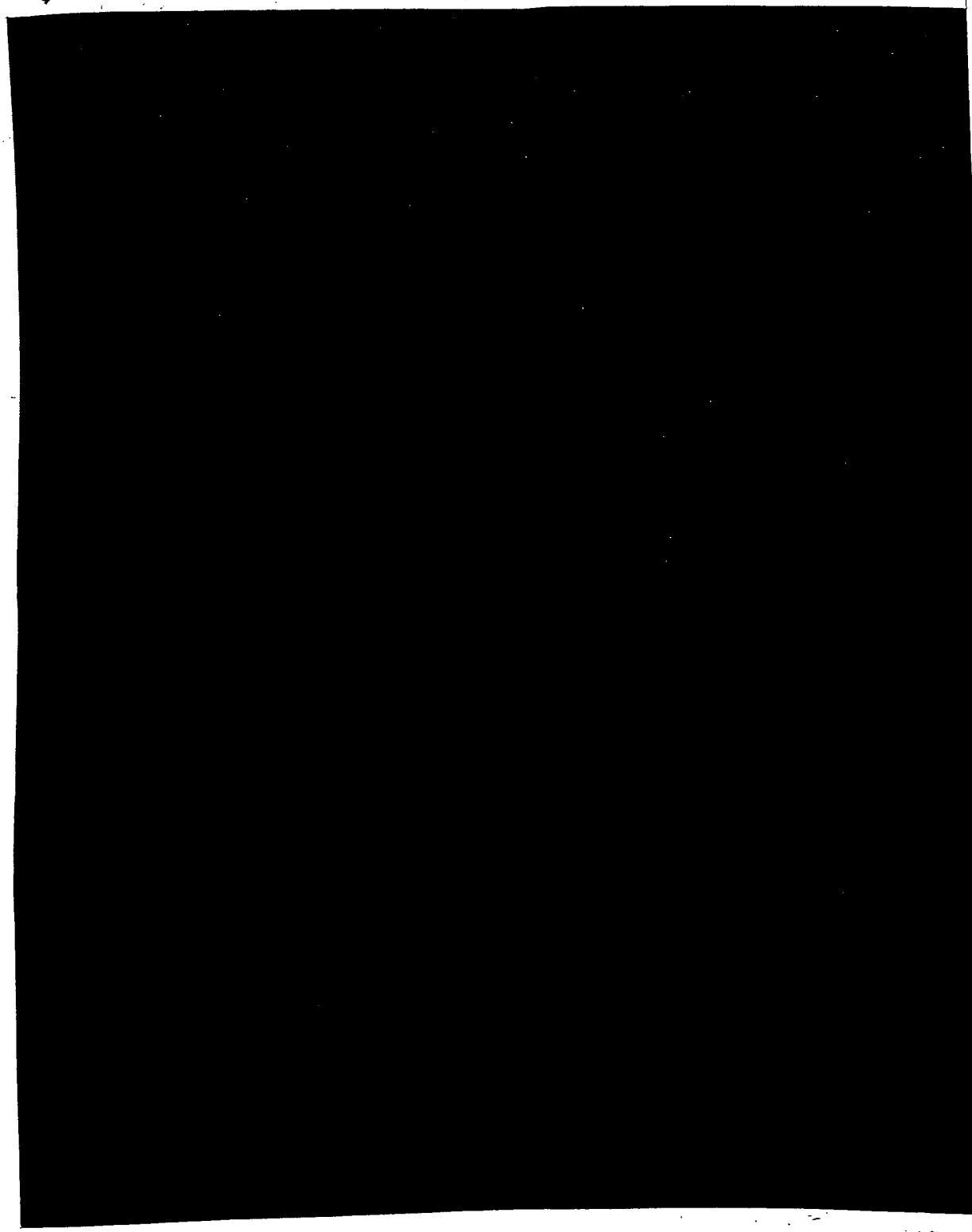

PHILIPPINES: **Situation Report**

Standoff in Manila

Sporadic heavy gunfire continues today in Manila's commercial district, where as many as 500 rebel troops are entrenched, most of them elite Army Scout Rangers. [redacted] The US official community in adjacent residential areas has been evacuated to safety. Guests in rebel-held hotels generally can move around indoors, and the government is attempting to evacuate about 2,000 civilians, including more than 200 Americans, under a temporary cease-fire. [redacted] b1, b3

[redacted] b1, b3

[redacted] b3

A government assault on the rebels would probably be bloody and would put civilians, including US citizens and other foreigners, at risk. Most of the rebels have extensive combat experience fighting the Communist insurgents and are the cream of the Philippine military. For the most part, the loyalist troops arrayed against them are police units that have little experience and hardly any training. [redacted] b3

Standoff in the South

[redacted] b3 the 400 rebels in control of Mactan Airbase near Cebu city in the southern Philippines have been given until midnight tonight local time to surrender. The rebel commander has warned he will destroy all aircraft on the base if the government troops try to attack. More than 400 tourists and hundreds of Filipinos have been evacuated from that area. [redacted] b3

[redacted] b3 Loyalist troops have surrounded the rebel position and probably are more willing to attack now that the civilian evacuation is complete. The rebel commander is keeping an eye on events in Manila and probably will negotiate if the government's position improves there. [redacted] b3

continued

Motives Behind the Coup Attempt

b3

[redacted] the rebel leaders appear to belong to the Reform the Armed Forces Movement (RAM) and apparently have support from a derivative organization, the Young Officers' Union.

b3

[redacted] RAM officers believe that, because their revolt against former President Marcos in 1986 brought Aquino to power, they are justified in seizing power if, as they believe, Aquino has failed to lead effectively. [redacted] b3

b3

[redacted] RAM has about 1,000 members and a well-organized core of 40 officers from the Philippine Military Academy class of 1971; it has long claimed that corruption in the military and the civilian government is undermining the war against the Communist insurgents. The movement has attracted many sympathizers throughout the officer corps and enlisted ranks with its argument that favoritism in military promotions hurts the military's professionalism. Funding has come from RAM leaders' private funds and from ties to businessmen, including Aquino's cousin Eduardo Cojuangco, a Marcos crony who only recently returned from exile. [redacted] b3

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[redacted]

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EAST GERMANY: Fresh Opposition Support for Reunification

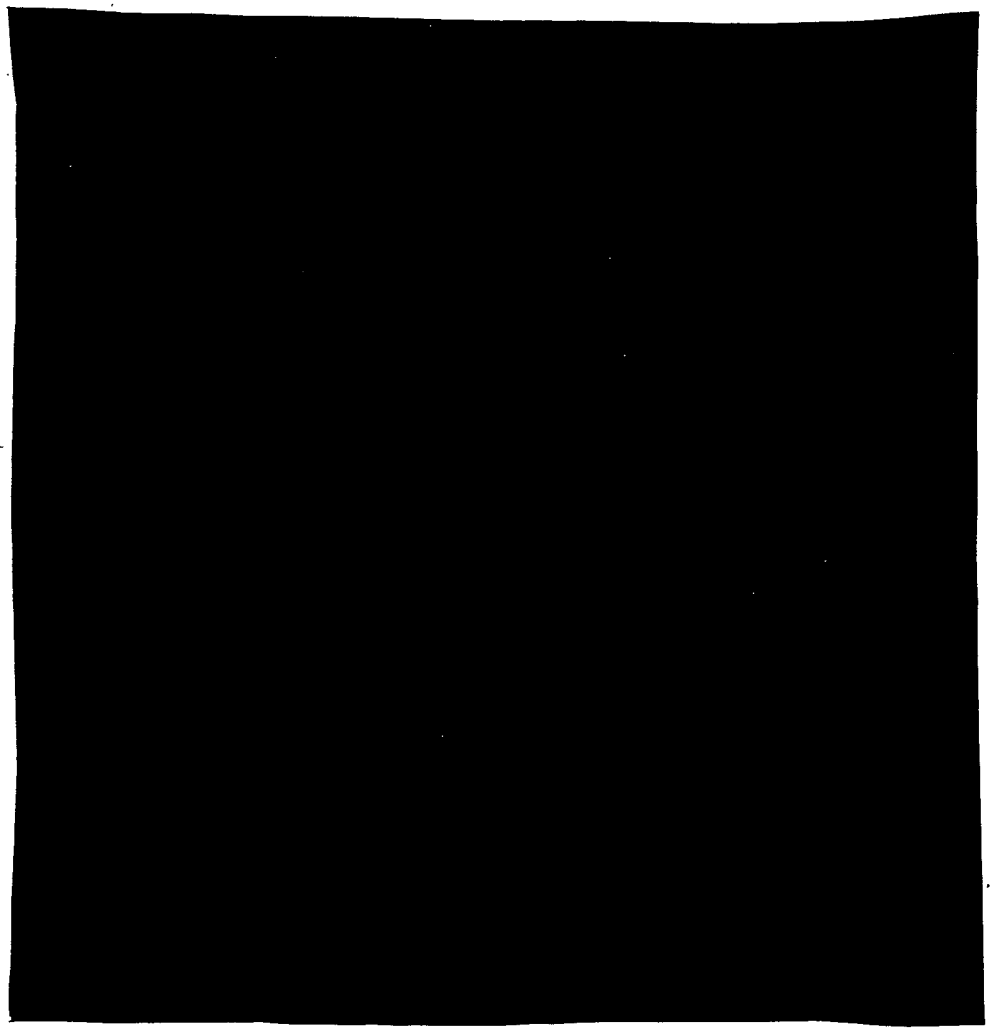
Growing signs of support for reunification by some East German opposition movements suggest that issue may become more important as free elections approach. [redacted] b3

Yesterday, for the first time, an opposition party was formed with the expressed goal of a unified Germany. The Reunification Party made its debut at the usual weekly demonstration in Leipzig, where it led calls for reunification among a crowd of some 200,000 [redacted] b3

The main opposition group, New Forum, has long opposed reunification but is showing signs of cracks on this issue. A New Forum spokesman yesterday announced that reunification would not be part of its platform despite calls from the movement's Berlin chapter for an early national referendum on the topic. The Potsdam chapter also voiced support for Germany's eventual reunification and demilitarization. Another opposition group, Democratic Awakening, has endorsed West German Chancellor Kohl's 10-point proposal as a framework for ending Germany's division. [redacted] b3

b3 [redacted] Growing public support for a united Germany might become a major issue at the roundtable talks set to start Thursday as well as in the national election likely to be held next year. The issue may increasingly divide the opposition, particularly New Forum, if the national leadership continues to support an independent socialist state. Support for closer intra-German ties is likely to grow among the established non-Communist parties. Two of them—the Christian Democrats and National Democrats—have used the idea of a limited confederation to gain voters. [redacted] b3

East German leaders, including Premier Modrow, probably will continue to reject early reunification as neither feasible nor desirable. Movement toward at least confederation might snowball, however, if political disarray grows and the economic crisis gets worse. Even without a crisis, closer cooperation on a broad front is likely as West German aid and investment pours in and Bonn's political influence rises commensurately. [redacted] b3



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USSR:

[redacted]

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USSR: **Struggle Over Press Freedom**

Acrimonious debate in the Supreme Soviet over a long-delayed draft press law reflects official ambivalence about the value of* glasnost *and the risks to regime control of an increasingly free press. [redacted] b (3)

The Supreme Soviet voted by a large majority on 27 November to return the draft to committee for refinement. The as yet unpublished bill [redacted] forbids censorship and gives public organizations and individuals the right to set up new publications. It would establish protection for journalists and make them responsible for the accuracy of their reporting [redacted] hardline opponents of the draft distributed a more restrictive version just before the plenary session, but it was voted down. The majority draft will be published for public discussion and taken up again by the Supreme Soviet early next year. [redacted]

b (3)

b (3)

The leadership is showing concern that *glasnost* is provoking excessive criticism of the government. President Gorbachev, flanked by the entire Politburo, set the tone at the meeting with newspaper editors in which he attacked Vladislav Starkov, editor of *Argumenty i Facty*, for publishing a poll unflattering to Gorbachev. Popular television shows have reportedly been reprimanded for unorthodox programming: in one case, at Gorbachev's insistence, for a segment on his mother. The chief editor of the liberal journal *Oktyabr* has been under attack from orthodox writers and, according to some accounts, will be replaced by the end of this month, raising fears among liberal intellectuals that they may lose control of the so-called thick (serious) journals. [redacted] b (3)

b (3) [redacted] Gorbachev continues to advocate more open debate and "constructive" criticism as the engines of *perestroyka*. But under pressure from party traditionalists, he is attempting to set limits. Gorbachev nonetheless confronts the reality that *glasnost* has taken on a life of its own, having won support from broad elements of the population, from journalists willing to defy leadership direction, and from a Supreme Soviet serious about legislation to codify a more pluralistic society. [redacted] b (3)

The Starkov incident is illustrative of these pressures and a no-win situation for Gorbachev. Failure to follow through might hurt his image as an effective leader, but firing Starkov would cost him the support of liberal intellectuals. The best way out would probably be to retain Starkov but to secure his commitment to publish traditionalist as well as reformist materials—Starkov now seems to be doing that.

[redacted]

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b (3)

[redacted]

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SOUTH KOREA: Pressure To Stimulate Economy Growing

South Korea approaches subcabinet-level meetings with the US this week under intense domestic pressure to shore up a sagging economy by helping exporters. [redacted] b (3)

Influential South Korean businessmen are increasingly concerned about recent economic setbacks. The economy is experiencing its weakest growth since 1980, in large part because of the sharpest downturn in exports in at least 25 years. Export volume through October declined about 5 percent since last year because of the cumulative effects of large wage increases and the 30-percent real appreciation of the won over the past three years. [redacted]

b3

As businessmen press for a major stimulus package, Seoul has made policy adjustments since mid-November, including a 1-percentage-point reduction in interest rates and the creation of a $1.5 billion investment fund. In addition, the government has established a labor-management committee to settle disputes amicably in order to prevent disruptions in production and exports. [redacted] b (3)

Business leaders are responding unenthusiastically, calling for even lower interest rates and a 5-percent currency depreciation.

[redacted]

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b (3)

[redacted] Any new economic team is likely to favor continued economic liberalization. Seoul nonetheless probably will take further steps in the weeks ahead to stimulate the economy given the unlikelihood of a near-term improvement in export-led growth. [redacted] the government is increasingly resorting to police action to break up strikes.

[redacted]

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To prevent a won depreciation from creating new commercial frictions with Washington, Seoul will probably tout progress in reducing the bilateral trade surplus, which fell to $3.4 billion for the period January to October. The South Koreans will also stress that they are committed to a further opening of their markets to imports and foreign investment. [redacted] b (3)

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CAMBODIA: **Phnom Penh Gaining Stature Abroad**

As their concerns grow about a return to power of the Khmer Rouge, several Western and ASEAN countries are shifting toward de facto recognition of, and outright support for, the Phnom Penh regime. [redacted] b3

b1,b3 [redacted] The European Parliament is calling for the EC to recognize the Phnom Penh regime and assist it in isolating the Khmer Rouge. [redacted] b1,b3 a French Foreign Ministry official recently went to Phnom Penh to prepare for the opening of a quasi-governmental cultural center. [redacted] b3

ASEAN is divided on the Cambodia question, but most of its members are considering closer ties to Phnom Penh. Thailand, once Phnom Penh's harshest critic, now advocates increased trade and investment in Cambodia. Moreover, Thai Prime Minister Chatchai opposes as unrealistic Prince Sihanouk's call for a comprehensive settlement to the Cambodia problem. Malaysia also is reexamining its Cambodia policy [redacted] b1,b3 Only Singapore continues to take a vocal hard line against the Phnom Penh regime, calling for its dismantlement, Khmer Rouge participation in any future government, and stronger support for the resistance. [redacted] b3

b3 [redacted] The shift toward Phnom Penh is not likely to slow no matter what resistance forces accomplish on the battlefield. The non-Communist resistance plans to renew its offensive next week, but any gains probably would be seen by the West as weakening regime forces and thus working to the advantage of the Khmer Rouge. And a failure by the resistance to expand captured territory, which now amounts to about 1,000 square kilometers in northwestern Cambodia, probably would reinforce the perception abroad that Phnom Penh can stand on its own and merits more international help. [redacted] b3

[redacted]

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[redacted]

b1 b3

CHILE: **Presidential Election Campaign in Final Stage**

Patricio Aylwin, candidate of the 17-party opposition coalition, has apparently consolidated his lead over his two rightist rivals before the election on 14 December to return Chile to civilian rule. [redacted] b3

After recovering from a slip in the polls to below 50 percent in mid-October, Aylwin is now favored by 56 percent of the respondents [redacted] He continues to b3 emphasize his ability to steer Chile back to democracy and to reconcile all political groups while also laying the groundwork for a new government. Aylwin is also discreetly reaching out to the main rightist party, recognizing that his coalition would probably need its support in the new Congress to obtain the two-thirds majority required to reform President Pinochet's constitution. [redacted] b3

Former Finance Minister Hernan Buchi, who is languishing at under 30 percent in most polls, is running hard on a promise to expand social services while maintaining the free market policies he initiated, b3 [redacted] He continues to allege that Aylwin has made a secret pact with the Communist Party and, in recent weeks, has charged that the increase in terrorist incidents, including a blackout of Santiago on Pinochet's birthday, portends more far-left violence if Aylwin is elected. Rightist populist candidate Francisco Errazuriz is struggling to stay at 11 percent in the polls, but b3 [redacted] there is a small chance he could gain enough votes at Aylwin's expense to force a runoff election early next year. [redacted] b3

b1, b3 [redacted] Pinochet recently surprised most observers by agreeing to meet with the winner after the election to ease the transition. The government continues, however, to enact legislation to limit the next president's authority and protect Pinochet's autonomy as Army Commander. [redacted] b3

b3 [redacted] The polls may overstate Aylwin's lead, but he probably can win a first-round election. He is drawing record crowds at campaign rallies and has effectively rebutted Buchi's charges of a pact with the Communists. Moreover, Buchi's and Errazuriz's impressive television spots are not likely to sway enough voters to force a runoff, and neither candidate is likely to withdraw to ensure a conservative victory over Aylwin. [redacted] b3

Pinochet seems reconciled to civilian rule, but there is an outside chance he may seek to derail the election, as he tried to do in the plebiscite last year. Nevertheless, there almost certainly is little support for such a move in the military. [redacted] b3

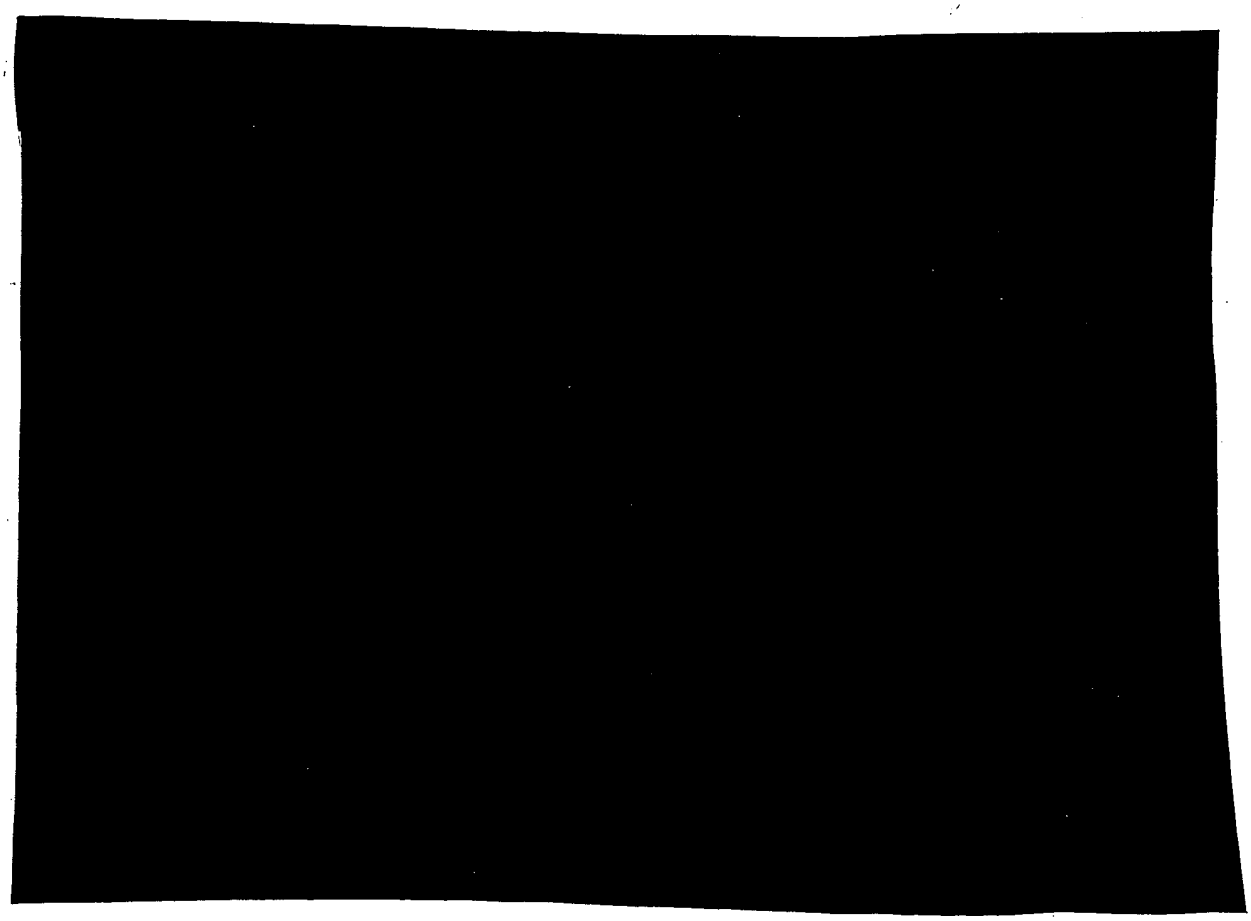
WARSAW PACT: Condemning Invasion of Czechoslovakia

In his report yesterday on the Malta dialogue, President Gorbachev noted he had taken his positions based on written consultations with the USSR's Warsaw Pact allies. He singled out arms cuts, respect for state borders, and the maintenance of existing alliances as key factors in preserving European stability. In their individual comments, Pact representatives confirmed their support for East Germany's efforts to "normalize relations" with West Germany without violating "recognized legal norms." The joint statement issued denounced the invasion of Czechoslovakia in August 1968 as a violation of its sovereignty. TASS noted Gorbachev had told Prague's leaders that Moscow is prepared to discuss bilaterally the future status of Soviet forces in Czechoslovakia. [redacted] b3

b3 [redacted] The stress on prior consultations with Pact allies reflects Moscow's efforts to manage the Pact by consensus in order to reinforce its viability despite the emergence of multiparty coalitions in Eastern Europe. The language of the joint statement and of the bilateral statements suggests a strong Soviet effort to secure Pact unanimity on key security issues, particularly opposition to near-term movement on German reunification. Gorbachev probably also used private meetings with Czechoslovak and East German officials to obtain more information on their fluid political situations. In addition, he held a "frank exchange of opinions" with the Pact's remaining maverick—Romanian President Ceausescu—presumably to prod Bucharest to undertake needed reforms. [redacted] b3

[redacted]

b1, b3



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EC: Protectionist Auto Pressures Growing

The West European auto industry is intensifying its lobbying for protectionist measures as the EC Commission prepares to meet next week on auto trade policy. The Commission must design EC-wide measures to replace national import quotas on Japanese cars.

[redacted] B1 B3

[redacted] The auto manufacturers want to maintain the new quotas until Tokyo accepts increased imports of autos from the EC.

[redacted] b (3)

[redacted] Increased investment in Western Europe by Japanese auto firms and EC producers' worries about future overcapacity have increased protectionist pressures. Although the Commission may comply, its free trade members probably will insist the quota be high enough to accommodate current Japanese exports and output from European plants. The Commission also wants to avoid a row with the US on this issue and has indicated that Japanese cars produced in the US will not be affected. West European subsidiaries of US auto companies would be among the likely beneficiaries of any effective European protection against Japan. [redacted] b (3)

CZECHOSLOVAKIA: Opposition Likely To Prevail

Opposition rallies in Czechoslovakia underscore the continuing popular support for the Civic Forum's demands for additional government concessions. More than 250,000 people in Prague and some 60,000 in Bratislava demonstrated yesterday to demand the resignation of the government announced on Sunday. The Civic Forum has rejected Premier Adamec's Communist-dominated team as an attempt by the regime to retain power. The opposition has called for a general strike next Monday if more ministerial-level changes are not made; many industrial strike committees have already expressed their readiness to participate. The Czech republic has [redacted] postponed the announcement of its new government until today. [redacted] b (3)

[redacted] A government crisis is certain if Adamec does not make more Cabinet changes by Sunday; the Czech republic has probably delayed its changes in response to the pressure. The Civic Forum's call for another general strike appears to have broad support; the work stoppages next Monday almost certainly will be as widespread as those staged last week. The leadership has lost its gamble that concessions—such as yesterday's opening of the border with Austria—would head off more demands for change, and it probably will be unable to resist the renewed pressures for genuine change. b (3)

[redacted]

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In Brief

[redacted]

[redacted]

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Special Analysis

PHILIPPINES: Challenges Facing President Aquino

Even if President Aquino survives the second nearly successful coup attempt in two years, her authority to rule is in jeopardy. She will need to move decisively on military, political, and economic grievances if she is to hold onto her legitimacy and political support until the presidential election in 1992. [redacted] b3

Aquino and Defense Secretary Ramos, whose credibility also has been eroded by the coup attempt, need to reassert control over a seriously fragmented, demoralized military. They need to decide how to punish the rebels swiftly, especially key renegade leaders like Colonel Honasan, without antagonizing those soldiers who remained uncommitted during the coup attempt. Nevertheless, coup plotting probably will continue as long as most junior and midlevel officers believe the military is justified in seizing power if Aquino fails, in their view, to lead the country adequately. [redacted] b3

The President's base of popular support, which has eroded over the past few months because of allegations of corruption and inefficiency in her government, probably will slip even further. [redacted] b1,b3

Aquino's relations with the Philippine Congress, her Cabinet, and the government administration will be tense; many whom she had counted on for support probably will question her leadership ability. [redacted] b1,b3

The coup attempt almost surely will shatter the confidence of the local and foreign business community at a time when the Philippine economy is doing reasonably well. [redacted] b1,b3

new investors are likely to stay on the sidelines until stability is restored. Nevertheless, Manila still needs to address the economic problems that preceded the coup attempt, including rising inflation and interest rates, the trade deficit, and public dissatisfaction over power outages and traffic gridlock in Manila. [redacted] b3

continued

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The Communists may get a second wind as the coup attempt interrupts the government's counterinsurgency effort. [redacted] In the aftermath of the coup attempt, the Communists may find that key Philippine and US officials have temporarily become easy targets and that US citizens in particular can be portrayed as enemies of Philippine aspirations.

[redacted] b (3)

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[redacted]

Western Assistance to Poland and Hungary

Western governments have offered or are about to offer $9 billion in loans, credit guarantees, grants, or debt writeoffs to assist economic restructuring in Poland and Hungary:

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[redacted]

b3

— ***France*** has offered assistance worth about $670 million, about half in export credit guarantees.

— ***Italy*** has offered more than $500 million, mostly export credit and investment guarantees.

[redacted]

In addition, the EC Commission has assembled a package of $1 billion in European Investment Bank project loans and almost $500 million in food aid and technical assistance grants.

The bulk of the financial assistance committed or being considered by the donor governments does not entail a direct budgetary outlay. The final cost of the export credit and investment guarantees will depend first on the extent to which commercial partners in the East and West draw on them and second on the economic viability of the activity being financed. If there are few defaults, the donor governments will not be required to cover the guarantees.

Most donor governments have concluded that managerial training and modern technology are what these East European countries need most and that commercial investment—not direct government aid—is the most effective way for them to obtain it. The assistance programs are designed to encourage, not compete with, that form of investment.

[redacted] b3

Special Analysis

EASTERN EUROPE:

The Price of Reform

East European reform governments will need massive infusions of Western assistance to survive over the long term. Most such aid must come from private investors, whose insistence on the free flow of capital and labor will tie Eastern Europe more closely to the world economy at the expense of the Soviet market. [redacted] b3

The new governments need to do better than their predecessors in narrowing the economic gap with the West. Over the past decade or so, the region's economic performance has fallen further behind that of the West; by 1988, per capita GNP had dropped to only 41 percent of that of the US, down from 46 percent in 1975. Per capita figures for Poland and Romania are now only a third that for the US. [redacted] b3

Eastern Europe probably would need nearly $3 trillion in investment to raise the region's per capita GNP to three-fourths of the current US figure. The Poles alone need nearly half that amount because of their larger economy and relatively lower level of development. [redacted] b3

Domestic financial resources are inadequate. Political reforms, moreover, will force East European governments to be more responsive to their citizens' economic needs, limiting the option of fueling economic growth at the expense of private consumption. Sharp cuts in defense spending, already under way, will help, but only marginally. The bulk of the funding required will have to come from external sources, primarily Western. Parceling out even a fraction of this level of aid will require careful monitoring. Past neglect of investment in roads, railroads, communications, housing, and health care systems has left most of the area unable to absorb large surges in new equipment and technology. [redacted] b3

The new governments also will require help in developing social programs to enhance their legitimacy. They will need Western guidance on how to build social safety nets as inefficient state enterprises are restructured and unemployment rises sharply. The governments also will require help in lessening environmental pollution caused by the burning of coal, an increasingly controversial issue, particularly in Poland and Czechoslovakia. [redacted] b3

Over the longer term, economic reform will hinge on the region's ability to attract private Western investment. Official Western aid so far totals about $9 billion, a level that cannot be sustained for long. On the positive side, Western investors will require an operating environment that guarantees the free flow of capital and labor as well as market access. These prerequisites will hasten the formation of ties to the international economy, further undermining Moscow's potential economic leverage. [redacted] b3